enterprise M3

Delivering prosperity through innovation

Enterprise M3 Board Meeting

2 December 2021

Resources, Finance and Audit Committee Financial Update – Item 10

The Enterprise M3 Board is asked to:

APPROVE: The Enterprise M3 Limited statutory accounts for the year ending 31 March 2021 **(Section 4)**

NOTE: The current 2021/22 forecast and medium-term position **(Section 2)**

NOTE: The work in progress to plan for the future / ensure financial stability, whilst we face uncertainty of funding and the future direction of LEPs **(Section 3)**

1. Executive Summary

1.1. This report provides a forecast for the 2021/22 out-turn position, and an updated 2021-2024 Medium Term Financial Plan, at the mid-year position (September 2021). It also outlines the approach we are taking to planning for our future stability, whilst we face uncertainty with respect to the Government's plans for LEPs and our future funding.

1.2. The EM3 Resources, Finance and Audit Committee (RFAC) met on 24 November 2021 to review the position, and is satisfied that the LEP is appropriately considering the risks to its medium-term financial stability, and adequately planning to mitigate and address the potential implications of those risks.

2021/22 Revenue Out-turn Forecast and Medium-Term Financial position (Section 2)

1.3. The 2021/22 revenue budget is underpinned by our delivery/business plan, and is set to enable implementation of our Revive and Renew Plan, and delivery of contractual commitments relating to growth hub services and careers and enterprise activities. Furthermore, it supports activities to deliver our capital programme; sector, innovation and trade work to support business; and actions around skills and net zero.

1.4. The budget was approved by the Board in January 2021. Since then, we have had further clarification of our funding streams, and have modified our planned activity in response. Significantly, we have received additional funding to continue our Peer-to-Peer programme, Growth Hub cluster activity, and Skills Action Plan activity – the majority of which carry additional resource requirements/costs. The overall impact is an increase in forecast 2021/22 net income of **+£109k**.

1.5. The Treasury has now announced that they will pay LEPs the second half of their core funding for the current financial year (£250k). This removes a previous significant risk from our 2021/22 forecast position.

1.6. We are keeping the Medium-Term Financial Plan (MTFP) under constant review. We continue to be in a good position for the next two years, based on the assumption that government core funding and contributions from partners remain at the same level. We are able to carry out our plans in 2021/22 and 2022/23, as our reserves are at a sufficient level to cover activity. However, our ongoing planned expenditure exceeds our income by around £0.5m per year, and by the end of the three-year period (March 2024), our reserves are predicted to be £0.26m below the minimum level set by our reserves policy.

Planning for the future (Section 3)

1.7. The outcome of the Government's review of LEPs is now expected in December, and this will shape the future direction of LEPs. LEPs expect change, and are already adapting to the shift in policy to entrust Local Authorities and Further Education establishments with the responsibility to bid directly for Government capital allocations.

1.8. In anticipation of change, we are carrying out scenario planning, considering the potential implications of funding and policy change for our financial stability and future activity. We continue to explore opportunities for savings and income generation. Unlike many other LEPs, we are in the fortunate position of being able to use surplus reserves, built up over the years from careful management of our resources, to cover expenditure to the end of March 2024.

1.9. In summary, with current assumptions, we are in a position where after March 2024, we would be required to make further savings and/or generate additional income totalling approximately £0.5m per year. However, our scenario planning demonstrates that, in the event of reductions to our core funding, our minimum reserves level would be breached during 2022/23. With reduced funding, we would be required to start making savings / generating additional income during 2022/23, a year earlier, and (depending on the level of reduced funding) at an increased level of up to approximately £1m per year.

1.10. RFAC is satisfied that the LEP is adequately considering the risks, and has acknowledged that more detailed analysis and planning will be required once Government announces its intentions for the future direction of LEPs.

Enterprise M3 Limited Dormant Accounts (Section 4)

1.11. The Enterprise M3 Limited statutory accounts for the year to 31 March 2021 have been prepared, and are ready to be approved by the Board of Directors, so that they can be submitted to Companies House. The company incorporates the decision-making element of the LEP, which does not trade, and has no financial transactions, assets, or liabilities, thus the accounts filed are dormant accounts (**Appendix 1**).

Next Steps

1.12. RFAC will continue to play a key role in overseeing the budget, managing risks and keeping the Board informed. We will update our forecasts and plans following the outcome of the Government's Review of LEPs and the Levelling-Up White Paper, alongside the work with the Board exploring the future direction of the LEP, and considering the strategic role of the LEP in driving forward Revive and Renew plans to grasp opportunities for our economy.

1.13. Together with the development of our income generation plan, we will review the organisation to ensure it has the right resources to respond to new challenges. This may involve some up-front investment, which will be managed from within our resources, but may require some fund deployment and budget variation.

2. Revised 2020/21 Budget and Medium-Term Financial position

2.1. Table 1 shows our revised forecast reserves position against budget, following the first six months' activity of the year (April- September 2021), and our revised medium-term financial plan. It is based on continuing existing core funding and partner contributions.

2020/21 ACTUAL £'000	Table1: EM3 Revenue Reserves	2021/22 Budget £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	
2.8	**TOTAL RESERVES AT START OF YEAR**		**3.0**	**2.5**	**2.0**	
3.4	*Income*	*2.3*	*2.5*	*2.4*	*2.4*	
(3.2)	*Expenditure*	*(2.9)*	*(3.0)*	*(2.8)*	*(2.9)*	**TOTAL**
0.24	**Use of reserves**	**(0.66)**	**(0.55)**	**(0.49)**	**(0.50)**	**(1.6)**
3.0	**TOTAL RESERVES AT END OF YEAR (A)**		**2.5**	**2.0**	**1.5**	
1.7	Minimum Revenue Reserves Level (B)		1.8	1.7	1.7	
1.4	**RESERVES AVAILABE FOR USE (C)**		**0.68**	**0.31**	**(0.21)**	

2.2. Our reserves policy stipulates that our reserves should be maintained at a minimum level which covers 50% of annual operational expenditure. Table 1 (Row C) shows that we would be within the minimum reserves level at the end of this financial year, and the next, but would breach it by **£0.21m** at the end of 2023/24.

2.3. When the 2021/22 budget was set in January 2021, our reserves were predicted to stand at £1.2m by the end of the three-year MTFP period (March 2024). We now forecast reserves at the end of March 2024 to stand at **£1.5m** (Row A) i.e. £0.3m higher. This improvement is a result of:

- An additional 2020/21 surplus out-turn (+£0.1m), as reported to the Board in May 2021.
- An improved 2021/22 forecast position (+£0.1m), mainly arising from additional income from Government to take on additional activity, requiring additional resources. This includes Peer-to-Peer network activity to support SMEs to recover from the impacts of COVID-19; Growth Hub funding to cover cluster activity; and capacity funding to develop our Local Skills Action Plan.
- An improved 2022/23+ MTFP position (+£0.1m). This follows review of income, ongoing costs and activity. Notably the increase in interest receivable due to renegotiation of deferred interest on a significant loan, and due to earlier expectation of an up-turn in Bank of England base interest rates. In addition, eight months after bringing in-house our Growth Hub service, we are able to achieve and recognise ongoing economies of scale achieved by operating an integrated service.

2.4. As noted in our last report to the Board, we have assumed revenue funding and activity largely at the current level; and that there will be no further Government capital funds allocations. **Appendix 2** sets out the updated Key Financial Risks and Assumptions incorporated in our financial management. Mitigation against the risks is in place, and this continues to present a prudent, robust budget and MTFP.

3. Planning for the future

3.1. Given current uncertainty around the future level of Government funding, and as work continues on the review of LEPs, including consideration of their future direction, the LEP is prudently managing and reviewing its activity. This includes considering financial stability in various scenarios, putting us in a good position to plan for the future once Government announces its intentions for the future direction of LEPs.

3.2. Our analysis shows that:

- With **current** funding contribution assumptions, our reserves are at a sufficient level to cover activity over the next two years. After this, assuming the continuation of the current trend, further savings and/or additional income totalling approximately £500k per year, would need to be achieved.
- However, in the event of **reductions in funding**, our minimum reserves level would be breached much earlier. In the event that we received **no further core Government funding**, our minimum reserves level would be breached during 2022/23, unless we adapted our activity to make further savings, and/or generated further income totalling approximately £1m per year.

3.3. Along with our general revenue balances, Enterprise M3 also holds a Capital to Revenue Fund, the unallocated balance currently standing at £0.6m. This may be used to further support revenue activity for the renewal and revival of our economy, and there may be scope to increase this balance with an additional transfer of our capital funds. The fund was established to predominantly support scheme development and design advancement, but has also been used towards skills and career improvement, scale-up business support, and COVID-19 business recovery activity. The underlying provision is that the funds should be used for one-off revenue projects, and not to fund ongoing revenue activity

4. Enterprise M3 Limited Dormant Accounts

4.1. We have prepared the statutory accounts for Enterprise M3 Limited, for the year ended 31 March 2021 (**Appendix 1**). They require Board approval so that they can be submitted to Companies House.

4.2. All Board members are Directors and Members of the Company. It is the responsibility of each director in a limited company to ensure that annual accounts are prepared, circulated to members and delivered to Companies House on time, even if that company has not traded.

4.3. The purpose of EM3 Limited is that of a decision-making company. It does not trade, and has no financial transactions, assets, or liabilities. Thus, in accordance with section 1169 of the Companies Act 2006, the company qualifies to file dormant accounts.

4.4. All revenue and capital funds relating to the LEP's activities, are held by, and accounted for by Hampshire County Council (HCC) as our Accountable Body. In accordance with the Accountability Framework and the Memorandum of Understanding between Enterprise M3 and HCC, these funds are separately identified within the County Council's accounting records. They are subject to external audit review as part of the Council's accounts.

4.5. Enterprise M3 Limited is a company limited by guarantee (CLG), and does not have shares. Instead, the members promise to guarantee the company to the sum of £1 each, and are issued with membership certificates.

The Enterprise M3 Board is asked to:

APPROVE: The Enterprise M3 Limited Statutory Accounts for the year ending 31 March 2021

5. Ongoing monitoring

5.1. We will continue with RFAC to monitor the risks associated with financial uncertainty, incorporating pressure/decision points, opportunities for income generation and savings, and necessary mitigations for financial risks. We will update and involve the Board at future meetings.

Aleks Bennett, EM3 Finance Manager

25 November 2021

Registered Number 11897237

ENTERPRISE M3 LIMITED

Dormant Accounts

31 March 2021

Balance Sheet as at 31 March 2021

	31 3 2021	31 3 2020
	£	£
Net Assets	**0**	**0**
Reserves	**0**	**0**

STATEMENTS

a. For the year ending 31 March 2021 the company was entitled to exemption under section 480 of the Companies Act 2006 relating to dormant companies.
b. The members have not required the company to obtain an audit in accordance with section 476 of the Companies Act 2006.
c. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.
d. These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

Approved by the Board on 2 December 2021

NOTES

Company is limited by guarantee.

Key Financial Risks **Appendix 2**

The Board should be aware of the **key financial risks** associated with the medium term-financial plan. The plan has been prepared under prudent assumptions; however, key risks remain relating mainly to the uncertainty of Government funding and policy. ***Changes from previous report in bold italics***

Appendix 2: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
Government Capital Funding uncertainty	The current Government Capital Deal (Getting Building Fund) ends in 2021/22. Government has determined its policy to entrust Local Authorities with the responsibility to bid directly for allocations from the Levelling Up Fund, the UK Community Renewal Fund and the Community Ownership Fund, and for their subsequent delivery. Similarly Further Education capital funding will no longer go via the LEP. We are prudently assuming no further growth deals will be distributed through LEPs.	**Low** We are able to carry out our plans in 2021/22 and 2022/23, as our reserves' levels are at a sufficient level to cover activity. The need remains to secure further funding/income generation/cost-savings, in order to cover activity in 2023/34 and beyond. Should we successfully attain further capital funding, each £1m capital fund would yield around £40k revenue funds via application fees and interest.	**Low**	For 2021/22 and 2022/23 we have enough reserves to cover the potential gap in funding of £0.5m - £0.6m per year in our budget. We are working with RFAC to explore opportunities for further savings and additional income, to address the longer- term gap.
Government Revenue Funding uncertainty	Government 2021/22 revenue funding contributions for the LEP operational and Growth Hub activity, ***have been confirmed*** (LEP £500k, and Growth Hub £617k, including £80k for cluster activity). Assumptions for the 2022/23+ medium-term plan are that funding continues at same level excluding cluster activity (£537k).	**Medium** Without this continued funding, we would not be able to maintain the same level of activity to cover the two years activity post 2021/22 to the end of 2023/24. ***Depending on the level of reduced funding we would need to reduce costs/activity or secure further funding/cost-savings at an increased level of up to approximately £1m per year.***	**High**	We are working with RFAC to: • Identify implications of reduced core funding • Explore opportunities for further savings and additional income, to address the longer-term gap.
Partner Contributions	The budget and medium-term forecast included the assumption that we will continue to receive significant contributions of £360k per year in total, from Local Authorities (LAs - £320k), and Further Education Colleges (FEs - £30k) to help fund our support, in particular providing funding for them to deliver capital projects.	**Medium** Removal of partner funding would see a reduction in income of £0.4m per year.	**Medium**	Up to the end of 2022/23 we have enough reserves to cover the potential gap in funding of £0.4m per year in our budget. The Joint Leaders Board were notified of the 2021/22 LA contribution. ***LAs were invoiced in September 2021, and the majority have already paid.*** As we are continuing to deliver a significant

Appendix 2: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
	As Government has no medium-term plans to use LEPs to manage and distribute large capital funds, and the strategic direction of LEPs is being reviewed, these establishments may no longer wish to support our activities in the same way.			part of our current programme in 2021/22, this risk is low in 2021/22, rising in the subsequent years. We are working with RFAC to explore opportunities for further savings and additional income, to address the longer-term gap. The results of the Government's review of LEPs (expected December 2021), and our work with the EM3 Board and other stakeholders, will shape the future direction of LEPs. This will involve discussions with our partners, ***including local authorities, FE colleges and universities,*** to determine the support we can provide, and the corresponding income.
Future Direction of LEPs	With the shift in Government policy from having LEPs manage and distribute large capital funds, and their current review of LEPs, the future direction of LEPs is currently uncertain. The budget assumes revenue funding and activity largely at the current level; and that there will be no further Government capital funding allocations to LEPs.	**Medium** Further deferment would see a reduction in income as follows: **2021/22:** ***Minimal. Current year Government revenue is confirmed. A significant capital programme remains to be delivered in year, thus we will see a similar level of LEP activity as budgeted, and so costs will be largely as budgeted*** **2022/23+** Significant: Without continued Core and Growth Hub Government funding at the levels currently received, we would not be able to continue a similar level of activity post 2021/22. ***Depending on the level of reduced funding we would need to reduce costs/activity or secure further funding/cost-savings at an increased level of up to approximately £1m per year***	**High**	Our medium-term financial plans are prudently based on assumptions that we will receive no further Government capital funding, thus our capital programme is much reduced; and the continuation of existing activities, with staff levels assumed to run at the current levels. We have enough reserves to cover the potential gap in funding to the end of 2022/23. We will update our forecasts and plans following the outcome of the Government's Review of LEPs ***(expected December 2021),*** alongside the work with the Board exploring the future direction of the LEP.

Appendix 2: Key Financial Risks and Assumptions				
Risk	**Description**	**Impact**	**Likelihood**	**Mitigation**
Interest Rate uncertainty	We receive interest on our balances held by HCC, as our accountable body, at the Bank of England base rate. Our forecasting assumes that rates will remain at 0.1%, and recover to 0.25% in the following two years. This is in accordance with global macro models and analysts' expectations; the base rate is projected to trend around 0.1% percent in during 2021 and recover to 0.25% percent in the first part of 2022.	**Low** Due to the low level of capital funding assumed, a change in the level will not impact reserves significantly. For example, if interest rates did not recover from 0.1%, the overall effect over three years is £38k. Similarly, if the base rate fell to below zero, say -0.1%, and in the unlikely event it remains there during the medium term, the effect on income is approximately £115k.	**Low**	We have enough reserves to cover the potential gap in funding in 2021/22 and 2022/23. We are working with RFAC to explore opportunities for further savings and additional income, to address the longer-term gap.
Interest receivable on loans	The budget and medium-term forecast includes interest receivable on three loans issued from our capital funds. Two of these were formally deferred in 2020/21, due to COVID 19 related business disruption. There is a risk that further deferment is necessary.	**Medium** Further deferment would see a reduction in income as follows: 2021/22: £110k 2022/23: £346k 2023/24: £400k We have enough reserves to cover the potential gap in funding in 2021/22, however our reserves would fall to £153k below minimum level by the end of 2022/23.	**Low**	We are in regular contact with the loan holders. We have enough reserves to cover the potential gap in funding in 2021/22. We are working with RFAC to explore opportunities for further savings and additional income, to address the longer-term gap.